Association of Bay Area Governments
PLAN CORPORATION
Pooled Liability Assurance Network
Association of Bay Area Governments

Finance Committee Meeting
Summary Minutes

May 14, 2014
10:30am – 1:00pm

101 8th Street
Oakland, CA
Conference Room B

Presiding	**Jurisdiction**
Nick Pegueros	Portola Valley
Committee Members Present	
Rebecca Mendenhall	San Carlos, CA

Staff Present – ABAG PLAN Corporation
Jim Hill, PLAN Risk Management Officer
Herbert Pike, ABAG CFO

Teleconference Locations:

Participant	Member City	State	Street Address
Mary Furey	Saratoga	CA	13777 Fruitvale Ave.

1. **Call to Order:**
   Meeting was called to order at 10:40am by Nick Pegueros

2. **Public Comments:** None

3. **Approval of Minutes –** November 7, 2013:
   Minutes for November 7, 2013 were approved as presented.
   /M/Mendenhall /S/Pegueros /C/unanimously approved

4. **FY 2013 Audited Financial Statements and Memorandum of Internal Controls**
   Herb Pike provided the Committee with PLAN audited Financial Statements and Memorandum on Internal Controls (MOIC) for fiscal year ending June 30, 2013 for review and discussion. The PLAN Financial Statements were consistent with the unaudited reports provided previously. There were no significant deficiencies noted in the MOIC, however, there was one finding that has been remedied. The noted item was "Bank reconciliation—prepare and review process". It was noted by the auditors that PLAN accountants were not including their name and the date of preparation of their activity, nor was management consistently dating their review. The lack of consistent dating of the reconciliation

precluded the auditor from testing to determine if the cash reconciliations were being completed in a timely manner. After being identified during the interim audit in March, 2013, the deficiency was immediately addressed. Staff and management within accounting have been dating all activity to enable the auditors to ensure bank reconciliations are being done in a timely manner. Staff concluded the report by stating PLAN is in a good financial position for next year. A motion was made to accept report as presented.
/M/Mendenhall /S/Furey /C/unanimously approved

5. FY 2013 Investment Report – Review and Discussion

Herb provided the Committee with an overview of PLAN Investment Reports through March 2014. As of the end of March, PLAN had a total amount of $45.84 million invested with a current book value of $45.79 million. Of this amount, $43 million (par value) is invested in Federal Agency Issued Coupon Bonds which provide an average annual yield of 1.602 percent and $2.84 million in LAIF providing an average annual yield of 0.236 percent. The combined average annual yield is approximately 1.52 percent. Herb provided the committee with a breakdown of all PLAN investments noting that the investment portfolio is not very diversified. Diversification will be focused on as opportunities arise, however, recent efforts to explore the bond market for business enterprises has not identified sufficiently rated bonds (AA or better) with decent yields. To get the higher yield, most of the bonds are callable and of longer term. This is a feasible option when the rates are not moving upward. The effective terms were very short because they were almost all being called within the first year. Herb discussed the continued need to evaluate the bond markets closely to take advantage of higher yields to improve performance of the current portfolio.

Herb noted the Finance staff has been afforded additional training (CDIAC courses) with respect to investment fund management. ABAG Accounting is intending to comb through the current PLAN Investment Policy and incorporate recent best practices and present this for the Committee's future consideration. In the meantime, the provided Investment Priorities for FY 2014-2015 suggests current areas to be addressed. Staff is available to respond to any questions the Committee may have.

Chairman Pegueros asked about current expected payouts and Herb reviewed the investment reports and answered additional questions on individual investment performance.

No action was taken by Committee.

6. Quarterly Financial Highlight Report – All Funds (QE March 2014)

Herb provided the Committee with PLAN Balance Sheet Statement as of March 31, 2014. He also provided the Committee with the Income Statements for the three PLAN funds: Administration, General Liability and Property through March 31, 2014. An additional report has been compiled to compare this fiscal year's balance sheet with the prior fiscal year's balance sheet through the first three quarters.

PLAN total assets are up $962 thousand over the previous year through the same nine months. PLAN liabilities are up over $11 million due to claim reserves (as determined by the actuary in the previous year) which were increased by almost $12 million. Despite paying $3.4 million in the first nine months of this fiscal year compared to just $2.2 million during the same period a year ago, the current year surplus has increased to $3.6 million compared to $3.1 million at the same time a year ago. With the increase in case closures, especially several high-value cases, it is expected that the projected claims reserve for next year will drop significantly from the most recent (preliminary) actuarial projection.

Herb noted Jim Hill will present the Administrative Budget and limited his review to the Income Statements through March for all three PLAN funds: Administration, General Liability and Property. Herb did emphasize some good news regarding the Administrative Budget; stating this year's budget projected a $133 thousand deficit, when in fact; the current budget surplus through three quarters is $171 thousand, a very favorable result.

Herb went on to note that General Liability Fund includes claims, reserves and grants. Revenues are below expectation by approximately $293 thousand through nine months which is attributable to low investment income. This decline in revenue is offset by a large decrease in expenses. Of the $816 thousand set aside for grants, there has been $517 thousand spent (63 percent). "Other direct charges' reflect full expenditure of annual budget; however, it is not indicative of a cost overrun, but rather the prepayment of related fourth quarter expenses. The biggest factor in the General Liability Fund is that only $658 thousand has been committed to-date for adjustments to claims reserves which is far below the $3 million reflected in the budget. It is anticipated at fiscal year-end, updated actuarial projection will result in a significant reduction in claims reserves which will favorably impact to fund surplus.

For the Property Pool, the income statement through the first nine months indicates a deficit of $127.6 thousand. This is a function of the pro-rating of revenue (only 75 percent realized), while the cost of some expense components (property insurance) reflect full year costs. If none of the $250 thousand set aside for adjustments to claims reserve is realized, a surplus at year end of some $218 thousand may be anticipated. Mary Furey asked for a one year synopsis and Herb projected a year end surplus based on factors noted.

Jim discussed the Quarterly Variance Report for the PLAN Administration Fund for the 3rd quarter through March 2014. 3rd QE Earned Premium (YTD) is $2,137,501 in line with our budget estimate. PLAN continues to recognize a cash payment of $10,000 (installment payment) associated with the ABAG claim settlement agreement dated September 11, 2011, each year until paid in full. The transaction is recorded on PLAN Administration Fund Balance Sheet as a reduction of an Accounts Receivable. There are three payments remaining under the agreement.

Staff reviewed personnel expenses which are in line with our budget expectations and on target for the fiscal year. For the consultants expenses, the 3rd QE Consulting Fees (YTD) were well within budgetary parameters on a pro-rata basis. It was also noted that legal consulting fees are well below budget, while our technical consulting fees and claims consulting fees currently exceed the annual budget on a pro-rata basis. Technical software/support fees related to IVOS support/maintenance, Safety Logic and Oracle license fees are driving the budget variance for technical consulting. AON costs for servicing the IVOS platform were increased this year based on cost escalators contained in prior agreements. The costs escalators had been deferred in the past at the discretion of the vendor. The timing of the increase in fees coupled with the timing of the invoice which includes charges associated with service to be provided in FY 2015 (calendar year billing cycle), impacted the budget variance.

Claim consultant fees are increased due to the utilization of temporary staff to support the Claims Operation pre and post retirement of the Claims Supervisor (Bruce Carey). Financial (Audit) fees exceeded budget slightly and are predicted to increase this FY due to an increase in the cost of performing the activity. Staff then discussed other Direct Charges for 3rd QE which are ahead of budget on a pro-rata basis. Other Direct Charges were over budget and are related to a significant increase in printing costs and postal charges. The variance is a function of an increase in internal and external printed materials (Board/Committee Packets, etc.). We are also experiencing an increase in mail volume. PLAN continues to emphasize a "paperless" environment and hopes to achieve better efficiency in the long run to manage escalation of these costs.

Staff then detailed the Surplus/Deficit stating that the Total Administrative Fund expenses at 3rd QE were $1,966,276 in line with the overall budget. YTD fund surplus at 3rd QE was $171,225 versus a projected annual budget deficit of ($133,320). PLAN is on target to finish the year ahead of budget which will lend favorably to our contingency reserve strategy.

As of March 2014, PLAN total equity (surplus) in the Administrative Fund is $714,115. This equates to 24% of our total expense budget and closely aligns with our contingency reserve goal of 25% or three months operating costs.

7. **Review of Preliminary Administrative Budget and Comparison to Prior Year**

Jim reviewed the PLAN Administration Fund and the 2014-2015 FY Preliminary Budget. The Committee was requested to select the option(s) to be presented to the Board of Directors for formal approval at the June Board meeting. The PLAN Administrative Budget for FY 2014-15 was presented in four parts. The 2014-15 FY budget included the option of outsourcing our Claim Administration services to a contract Third Party Administrator. Three different Claims Administrators are under consideration. A detailed analysis of each proposed budget, including a comparison to the prior fiscal year was presented. PLAN staff provided the committee with a detailed breakdown of personnel cost under separate (confidential) cover. The data included a comparison to prior fiscal year. The proposed Administrative Budget reflects a balanced budget designed to preserve and aid the growth of program surplus.

The PLAN Administrative budgets presented to the Committee this year range from $2,847,508 to $2,020,226. Each budget achieved a reduction in overall expenses from prior year. The indicated reductions (savings) ranged from $963,094 (-32%) to $135,812 (-5%) when compared to prior year. ABAG continues to focus on the overall containment of operating expenses, specifically personnel costs. Staff provided the Finance Committee with an overview of the RFQ for Claims Management Services process and resulting findings. The proposed budgets all indicate a reduction in personnel costs/expenses from prior fiscal year. The notable savings depicted when utilizing the TPAs are directly attributable to the reduction in personnel costs associated with the staffing of our claims examiners.

Staff noted additional savings are achieved via a reduction in ABAG indirect overhead, which is a function of payroll and currently charged at a rate of .4295. Further savings were projected through a reduction in other costs and other direct charges, most notably technical consulting and insurance/bonding. Technical consulting charges would be reduced as a function of the elimination of claim system maintenance needs, including licensing and fees. The cost of maintaining a full contingent of claims examiners would be eliminated with the exception of the Claims Supervisor. The two claim assistants are being retained to handle subro/salvage matters and claims reporting analytics (Claims MIS/RMIS). The reduction in personnel costs range from $1,152,092 (-45%) to $138,312 (-5%).

Staff discussed the other costs and direct charges saying that the Consulting Fees are projected to decline 2% in FY 2014-15. The budget anticipates a reduction in legal expenses given declining legal activity and no major litigation anticipated. The budget(s) reflecting the utilization of a TPA include the annual TPA fee as “other costs”. This cost variance is offset entirely by the associated reduction in personnel cost. Other direct charges are projected to increase due to increased travel for training and development. The increase in these areas are due to the hiring of a new supervisor. The overall changes and values in each area are unremarkable. Staff summarized by saying that the budgets reflecting the utilization of a TPA show significant cost reductions in the areas of Technical Consulting and Insurance/Bonding, while adding cost associated with the TPA service fees. All major Budget variances (> 10% +/-) were highlighted and staff anticipates an increase in Audit Fees ($4,000 / 33%) due to a new contract with the Accounting firm. This figure may come in lower given the actual amount of time allocated to PLAN audit.

Staff prepared and presented two formal resolutions reflecting the commitment of the Committee to preserve PLAN resources by increasing the Capital Reserve Fund and implementing a Contingency Reserve Policy.

Staff followed with discussion on the PLAN Capital Reserve and Contingency Reserve Policy noting that the Committee should recommend to the Board the expansion of PLAN Capital Reserve policy to include PLAN assets (automobiles) and a Contingency Reserve Policy. Staff asked the committee to approve the two resolutions for formal ratification by PLAN Board of Directors at the upcoming June meeting. The benefits of a capital reserve policy are recognizable and are a standard best practice.

PLAN's policy is designed to ensure that designated assets are set aside and readily available for future needs. PLAN's current capital reserve policy is limited to the capitalization of depreciation associated with our IVOS claim platform.

The Committee discussed the expansion of the current policy to include the replacement of PLAN fleet vehicles, as well as, introduce a Contingent Reserve Policy.

Resolution No. 01-2014 (Resolution Establishing Contingency Reserve Policy) provided to committee members will earmark funds in an amount equal to at least 25% of the Administrative Budget. This will provide PLAN with a reserve equal to 3 months operating expenses which will allow PLAN to withstand any adverse financial circumstances which may arise during the course of our operations. The resolution calls for this amount to be accrued over time in increments of at least $50K annually.

Resolution No. 02-2014 provided to committee members is designed to earmark funds for automobile replacement by taking the accumulated depreciation on PLAN automobiles (2005 Pilot and 2005 Prius) and adding the amount of depreciation to our existing Capital Reserve account. This will ease the burden of funding the replacement of PLAN vehicles at the appropriate juncture.

Staff recommends the Finance Committee approve the resolutions in content and format. Committee to recommend formal ratification of the resolutions at the June BOD meeting.

/M/ Mendenhall /S/ Furey /C/unanimously approved

Note: No action was taken on the approval of the PLAN FY 2014/15 budget. The matter was deferred to the Executive Committee and BOD at the request of the Finance Committee given the complexity of the situation and the broader implications of outsourcing a significant portion of the PLAN operation. The Committee members acknowledged the potential savings and will ask the Board to take into consideration the significant cost savings along in light of the current escalation of PLAN personnel costs which is deemed as unsustainable.

8. TPA RFQ – Cost/Benefit Analysis and Discussion of Impact to PLAN Administrative Budget
PLAN Administrative Assistant was recused from this meeting. The Committee discussed some of the broader personnel issues (Human Resources and Collective Bargaining). Staff informed the Committee that all personnel and union issues have been vetted. Staff informed committee that ABAG Executive Director, General Counsel and Risk Management Officer have met formally with the SEIU union representatives and there are no collective bargaining or contractual impediments (MOU). Ongoing dialog with the union representatives will continue.

9. Other Business

None

10. Adjourn

Meeting was adjourned at 1:00 pm.

Respectfully Submitted,

James Hill
PLAN Risk Management Officer
Corporate Secretary